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## Kenya

## Coffee

## Kenya Coffee Update Report

### 2004

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**Report Highlights:**

During the year 2002/03 production year coffee production and exports were estimated at 55,000 mt and 51,000 mt respectively. A modest production increase is forecast to 60,000 mt for 2003/04. The increase will be attributed to weather and production from non-traditional coffee growing areas.

The on going low coffee prices coupled with uncertainty of the on going reforms are still demoralizing the coffee farmers.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
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[KE]

**PRODUCTION**

The Coffee Research Foundation (CRF) recorded coffee production at 55,000 tons for MY 2002/03 and a modest increase (8 %) is forecast for 2003/04. The increase is attributed to weather and production from non-traditional coffee farming areas. Overall production decline is as a result of both internal (demoralized farmers) and external factors (declining world price).

<b>PSD Table</b>						
<b>Country</b>	<b>Kenya</b>					
<b>Commodity</b>	<b>Coffee, Green</b>				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
<b>Market Year Begin</b>		10/2001		10/2002		10/2003
Area Planted	165	165	165	167	170	167
Area Harvested	155	155	155	155	155	155
Bearing Trees	205	205	215	215	220	220
Non-Bearing Trees	12	12	12	12	0	0
TOTAL Tree Population	217	217	227	227	220	220
Beginning Stocks	237	237	254	254	274	307
Arabica Production	867	867	918	924	1050	1000
Robusta Production	2	2	2	2	2	2
Other Production	0	0	0	0	0	0
TOTAL Production	869	869	920	926	1052	1002
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	3	3	3	3	3	3
TOTAL Imports	3	3	3	3	3	3
TOTAL SUPPLY	1109	1109	1177	1183	1329	1312
Bean Exports	832	832	880	853	1000	1000
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	832	832	880	853	1000	1000
Rst,Ground Dom. Consum	20	20	20	20	20	20
Soluble Dom. Consum.	3	3	3	3	3	3
TOTAL Dom. Consumption	23	23	23	23	23	23
Ending Stocks	254	254	274	307	306	289
TOTAL DISTRIBUTION	1109	1109	1177	1183	1329	1312

**Coffee yield and hectarage**

Area under production has not been updated; estimates by CRF give 127,271 and 40,127 hectares for co-operative and estates respectively. The beginning of the decade saw reduced

hectareage through uprooting to create room for more competitive agricultural enterprises mainly horticulture and dairy. This was more characterized in the mount Kenya region.

When the NARC government took over in 2002 there was renewed coffee interest especially in the Mount region but lasted a short stint. The challenges of NARC are daunting, it being a coalition of political parties with very divergent ideological orientations, not to mention personality differences. Farmers are torn between two ministries namely the ministry of Agriculture (coffee production) and the ministry of Co-operative Development (marketing). The latter seems more in control of coffee issues.

New interest has emerged amongst farmers in western Kenya who are shifting away from maize farming (coffee has higher gross margins). There is increased demand of planting material, mainly Ruiru 11 (high yielding variety that is resistant to Coffee Leaf Rust and Coffee Berry Disease) in this region. Due to the high costs of establishment the main coffee growing areas have the traditional varieties that are expensive to maintain. The western Kenya farmers have formed unique co-operatives (they hand pulp their on coffee and deliver to the co-operative society for on ward marketing) that are not entangled in the on going controversies that have characterized the coffee industry and are blamed for the existing coffee problems. The smallholder coffee co-operatives are heavily indebted making coffee farming impractical. The coffee industry is indebted to tune of more than kshs 10 billion.

#### **Kenya Coffee Production, yield and realization**

Kenya Coffee Production, Yield and Realization						
	2000/01		2001/02		2002/03	
Sector	Smallholder	Estates	Smallholder	Estates	Smallholder	Estates
Production (Tons)	25,033	27,081	28,901	19,152	34,025	21,419
Yield (tons/ha)	0.195	0.673	0.227	0.477	0.267	0.534
Cost of production (kshs/ha)	69,300	121,200	69,500	123,100	68,900	120,300
Gross realization (kshs/ha)	63,888	95,832	72,777	109,165	60,573	90,859
Net realization (kshs/ha)	(5,412)	(25,368)	3,277	(13,935)	(8,327)	(29,441)
National Av. Price (kshs/60kg)	67.95		77.18		65.90	
Source: Coffee Research Foundation						

Estate coffee production has been on the decline and is likely to continue unless existing policies are changed. Large farms have few economies of scale since the farms use hand harvesting and not mechanized harvesting. They pay cash wages to workers rather than having access to non-cash family labor like the small-scale farmers. At current price levels coffee farming is not profitable as evidenced by the above table. Not surprisingly some estates farmers have opted to quit coffee farming and adopt other more profitable enterprises.

Kenya has the best coffee facilities and institutions to stimulate coffee development. These facilities range from a vibrant co-operative movement, the Coffee Research Foundation (CRF), the Coffee Marketing Board, an established auction in the form of the Nairobi Coffee Exchange, a Coffee College, a vibrant private-sector investment from farming and milling to marketing. Despite all these facilities the country is experiencing reduced performance at a time when their regional counterparts are recording increased production. The reduced performance stems from a long history of problems related to co-operative mismanagement, mismanagement of other coffee institutions (Coffee Board of Kenya, Coffee Research Foundation), non-availability of affordable credit, late payment to farmers and general wrangles related to marketing.

## Trade

Figures obtained from the Coffee Board of Kenya give coffee exports at 51, 165 mt a modest increase from the previous year, which had 49,910 mt.

## Trade

<b>Export Trade Matrix</b>			
<b>Country</b>	Kenya		
<b>Commodity</b>	Coffee, Green		
Time Period	2002/03	Units:	Tons
Exports for:	2002		2003
U.S.	5,205	U.S.	4,565
Others		Others	
Germany	14,932		16,283
Sweden	5,784		4,448
Belgium	4,537		3,315
Finland	2,347		3,132
U.K	2,117		2,988
Netherlands	1,406		3,074
Eritrea	1,620		3,286
Canada	1,195		1,041
Saudi Arabia	1,486		953
Norway	1,321		1,200
Total for Others	36,745		39,720
Others not Listed	7,960		6,880
Grand Total	49,910		51,165

During the year 2002/03 coffee exports were valued at Kshs 5.93 billion as compared to kshs 6.71 billion the previous year.

## Policy and Marketing

The interim marketers Kenya Planters Co-operative Union (KPCU), Thika Coffee Mills and Socfinaf that also double up as millers are attempting to acquire the long delayed marketing licenses. In the mean time a new round of infighting could erupt in the coffee industry, as directions from both the ministry of Agriculture and Ministry of Co-operative are not clear. There are other requests for licensing from other marketing agents.

Policies for coffee development and marketing need to be tailor made to reflect the existing diversity in production and marketing. A return to a more farm centered approach, supported by improved services to farmers such as research; marketing and improved access to credit is worthwhile. For instance coffee farming has increasingly relied on private sector to support and drive development but has not addressed the many practical difficulties facing private investors and farmers. New policies and action are needed to

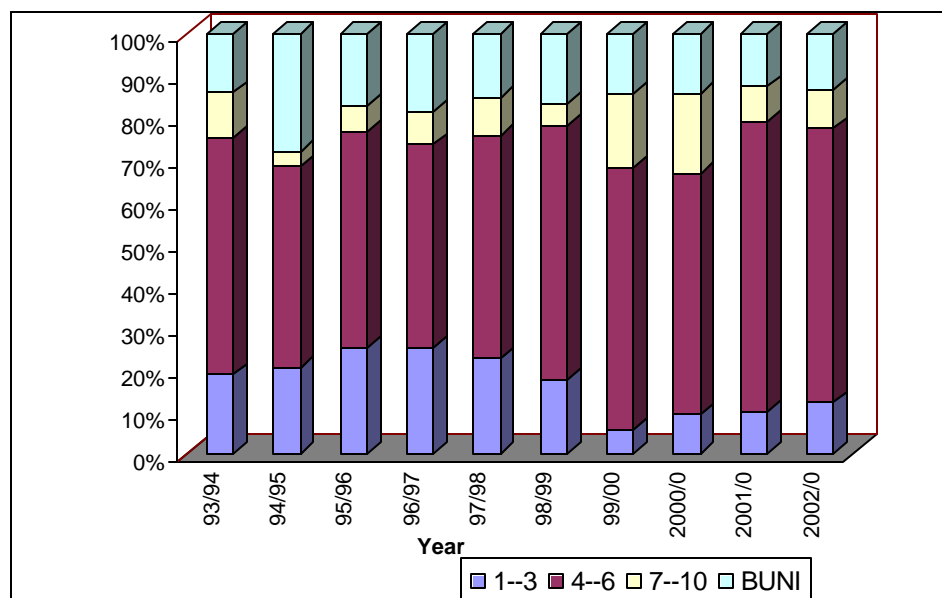
facilitate access to credit, marketing and information among other factors in order to make coffee farming profitable.

The marketing policy has retained the central marketing system under the Nairobi Coffee Exchange. Some analysts believe that it restricts farmers to one trading system hence it is an unfair system. They call for the government to liberalize the export market to run parallel with the auction system. The estate farmers and the large co-operatives support this school of thought more.

#### Coffee quality trends

Kenya coffee has experienced a decline in both production and quality performance in the past decade. The worrying trend is the premium classes 1-3 in both the estates and the co-operative sector.

#### Co-operative Coffee quality trends (1993 – 2003)



**Estate coffee quality trend (1993 – 2003)**